

Q4 2005

# Quarterly

## ECONOMIC REPORT

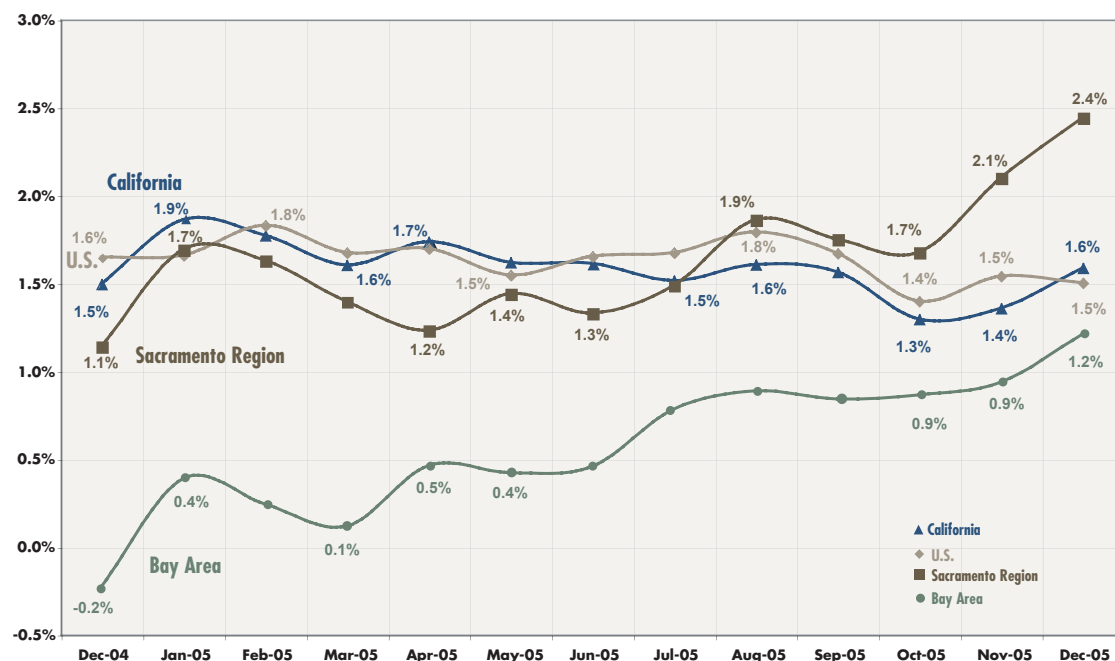
### The Sacramento Region Posted Strong Job Growth in December 2005

It surpassed many regions throughout the state, as well as statewide and national averages

Over the past two months, job growth in the six-county Sacramento Region has surpassed the statewide and national averages by a considerable amount. The Region has posted job growth above these two benchmarks since August 2005, but the gap widened at the end of 2005. Between December 2004 and 2005, the Region experienced 2.4 percent employment growth with a gain of over 22,000 jobs. This marks the highest year-over-year employment growth rate throughout 2005 and some of the most notable growth for the Region since late 2000.

With 1.6 percent job growth, the state ended 2005 with a similar year-over-year employment growth rate as the close of 2004. The December 2005 rate reflects a 12-month increase of over 234,000 jobs. Since June 2005, job growth in the state has generally fallen below the national average. Despite the trend of declining rates, California saw moderate job growth in 2005 with a high of 1.9 percent in January and a low of 1.3 percent in October.

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#### Job Growth

Sacramento Region, Bay Area, California and United States

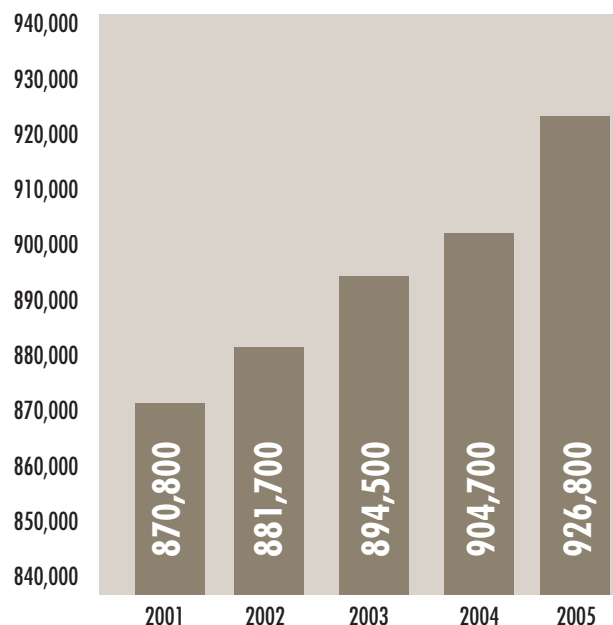
Sacramento Regional Research Institute, January 2006. Data Source: California Employment Development Department and Bureau of Labor Statistics. Note: Job growth reflects year-over-year employment growth rates.

An economic report on the six-county Sacramento Region provided by the Sacramento Regional Research Institute (SRRI), a joint venture of SACTO and California State University, Sacramento

## Job Growth *cont.*

### Sacramento Region Employment

December 2001–2005



The nation experienced fairly stable year-over-year employment growth rates during 2005. Over the December 2004 to 2005 time period, the nation added about 2.2 million jobs, posting a 1.5 percent growth rate. This is slightly lower than the moderate 1.6 percent average for the year.

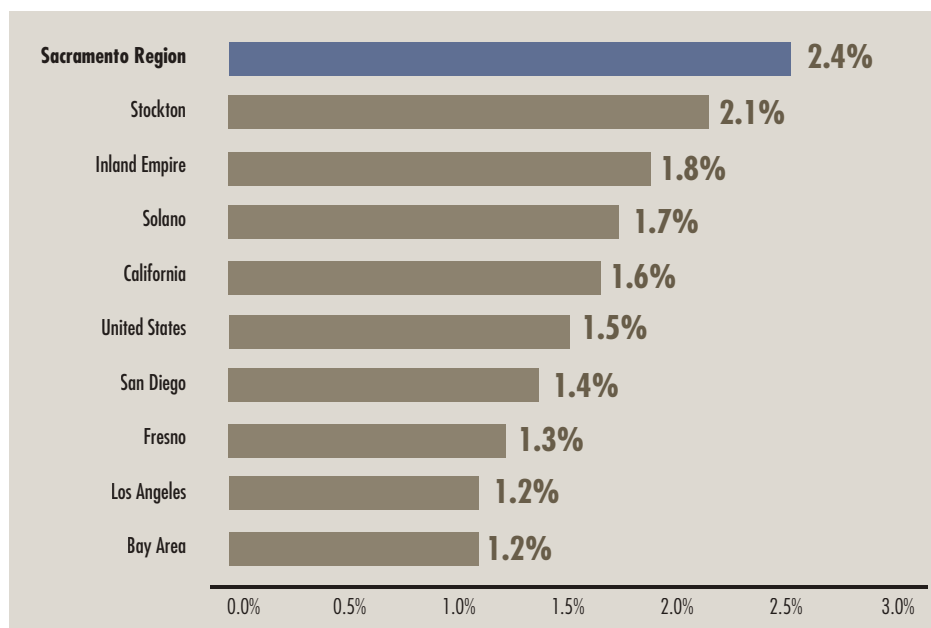
Toward the end of 2005, the Bay Area's recovery became more pronounced with job growth reaching 1.2 percent in December, showing a 12-month gain of over 34,000 jobs. Every month in 2005 posted positive year-over-year employment growth in the Bay Area, a remarkable change from the constantly negative job growth over the past few years. Only one year ago in December 2004, the Bay Area posted -0.2 percent job growth, while the most current growth rate approached—but did not quite reach—the national average.

Sacramento Regional Research Institute, January 2006  
Data Source: California Employment Development Department

### Employment Growth Rate

Selected Regions,  
December 2004–2005

Sacramento Regional Research Institute,  
January 2006  
Data Source: California Employment Development  
Department and Bureau of Labor Statistics



The Sacramento Region experienced the highest job growth compared to neighboring areas and the state's largest regions in December 2005. This strong growth was notably higher than the second-place region, Stockton, and well above the Inland Empire, which in the past consistently posted the highest job growth among the selected regions. Some of the state's largest regions including San Diego, Los Angeles, and the

Bay Area posted job growth below both the statewide and national averages, illustrating the economic boost that many of the state's smaller inland areas have been providing over the past year. This comparison also demonstrates the Bay Area's improved economic condition where job growth has reached similar levels as the Los Angeles, Fresno, and San Diego regions.

# The Region's Trade, Transportation & Utilities, Government and Construction Sectors Added the Most Jobs Over the Past Year

In early 2005, the Sacramento Region's Government sector moved back into positive year-over-year job growth following two years of negative growth. Since then, the public sector has ascended the list of major sector job gains. In addition to the Government sector, between December 2004 and 2005, the Trade, Transportation & Utilities and Construction sectors experienced the greatest job gains. Combined, these three sectors added 15,000 jobs, accounting for nearly 70 percent of the Region's net job gains. The Information sector has consistently seen year-over-year employment losses since August 2002—in December 2005, it was the only sector in the Region posting negative job growth.

Over the past 12 months, the state experienced the greatest job gains in the Construction; Leisure & Hospitality; and Professional & Business Services sectors. These three sectors added nearly 137,000 jobs to the state's economy between December 2004 and 2005, comprising close to 60 percent of the state's

net employment gains. Showing a different pattern than the Sacramento Region, every sector in the state's overall economy posted positive job growth, including Information.

The Bay Area's Educational & Health Services; Construction; and Government sectors added the most jobs over the past year. With a total increase of over 19,000 jobs, these three sectors accounted for about 56 percent of the Bay Area's net employment gains over the past 12 months. Similar to the Sacramento Region, the Bay Area posted job losses in only the Information sector.

## Employment Gains and Losses

Components of Sacramento Region and Bay Area

	December 2004–2005	
Area	Absolute	Rate
<b>Sacramento Region</b>	<b>22,100</b>	<b>2.4%</b>
Sacramento-Arden Arcade-Roseville MSA	18,900	2.2%
Yuba City MSA	3,200	8.2%
<b>Bay Area</b>	<b>34,400</b>	<b>1.2%</b>
Oakland-Fremont-Hayward Div.	22,700	2.2%
San Francisco-San Mateo-Redwood City Div.	8,800	0.9%
San Jose-Sunnyvale-Santa Clara MSA	2,900	0.3%

Sacramento Regional Research Institute, January 2006  
Data Source: California Employment Development Department

## Major Sector Employment Gains and Losses

Sacramento Region, Bay Area and California

	December 2004–2005		
Sector	Sacramento Region	California	Bay Area
<b>Total Nonfarm</b>	<b>22,100</b>	<b>234,100</b>	<b>34,400</b>
<b>Private Sector</b>	<b>17,600</b>	<b>203,900</b>	<b>29,900</b>
<b>Public Sector</b>	<b>4,500</b>	<b>30,200</b>	<b>4,500</b>
Trade, Trans. & Util.	6,500	15,800	3,600
Government	4,500	30,200	4,500
Construction	4,000	68,000	6,200
Prof. & Business Svcs.	3,300	33,500	2,300
Leisure & Hospitality	1,900	35,400	3,600
Manufacturing	1,300	3,800	2,000
Edu. & Health Svcs.	800	25,500	8,500
Other Services	400	3,500	600
Financial Activities	200	11,500	4,600
Nat. Res. & Mining	0	300	0
Information	-800	6,600	-1,500

Both of the Sacramento Region's metropolitan statistical areas (MSAs) added jobs between December 2004 and 2005. The Yuba City MSA (Sutter and Yuba Counties) escaped a pattern of continuing negative job growth at the beginning of 2004 and reached a high of 8.2 percent growth by the end of 2005. The 3,200 jobs added within the Yuba City MSA between December 2004 and 2005 accounted for 14 percent of the Region's net job gains. Much of the Yuba City MSA's growth was driven by the Trade, Transportation & Utilities and Government sectors, while only the Manufacturing sector posted job losses. The Sacramento-Arden Arcade-Roseville MSA (El Dorado, Placer, Sacramento, and Yolo Counties) provided nearly 86 percent of the Region's net

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## Sector Job Gains *cont.*

employment gains over the past year with an addition of 18,900 jobs. Like the Yuba City MSA, a good deal of the Sacramento-Arden Arcade-Roseville MSAs job growth was contributed by the Trade, Transportation & Utilities and Government sectors. Only one sector posted job losses in the Sacramento Arden Arcade-Roseville MSA—Information.

Similar to the Sacramento Region, all components of the Bay Area's economy added jobs over the past 12 months. The Oakland-Fremont-Hayward Metropolitan Division (Alameda and Contra Costa Counties) added the most jobs and posted a relatively healthy growth rate. Its addition of 22,700 jobs accounted for nearly 67 percent of the Bay Area's net employment increase

between December 2004 and 2005 with the Educational & Health Services and Construction sectors adding the most jobs. Job gains in the San Francisco-San Mateo-Redwood City Metropolitan Division (Marin, San Francisco, and San Mateo Counties) made up nearly 26 percent of the Bay Area's net employment gains with the Educational & Health Services and Leisure & Hospitality sectors exhibiting the greatest growth. The San Jose-Sunnyvale-Santa Clara MSAs (San Benito and Santa Clara Counties) recovery has allowed it to make a positive contribution to the Bay Area's economy. Contributing 8 percent of the Bay Area's net job gains over the past 12 months, the San Jose-Sunnyvale-Santa Clara MSAs job growth was led by the Government and Information sectors.

# Employment Opportunities for Region's Residents Grew Faster than Number of Employable People in 2005

Economic theory suggests that as long as the year-over-year growth rate in the number of persons employed is larger than the growth rate in the civilian labor force, a region is in good economic health. Throughout 2005, the Sacramento Region has been in relatively good economic health where the number of employment opportunities available to the Region's residents grew

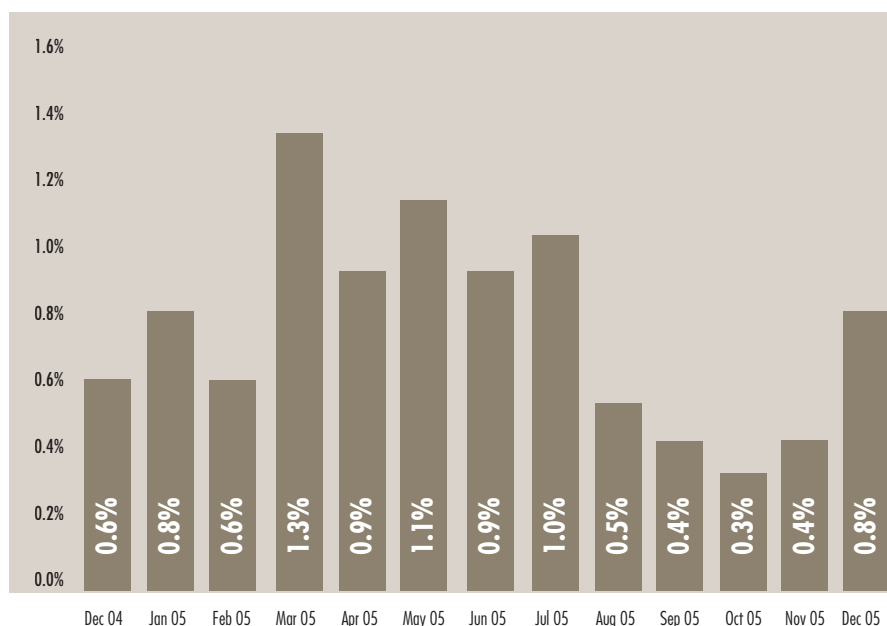
faster than the number of employable people. Some of the healthiest conditions were posted in March, May, and July where year-over-year growth rates in persons employed were over 1 percentage point higher than civilian labor force growth rates. The divergence decreased in September, October, and November, but still remained positive.

## Sacramento Region Economic Health

Sacramento Regional Research Institute, January 2006

Data Source: California Employment Development Department

Note: Bars reflect the percentage point difference between the year-over-year growth rates in the employed portion of the labor force and the total labor force.



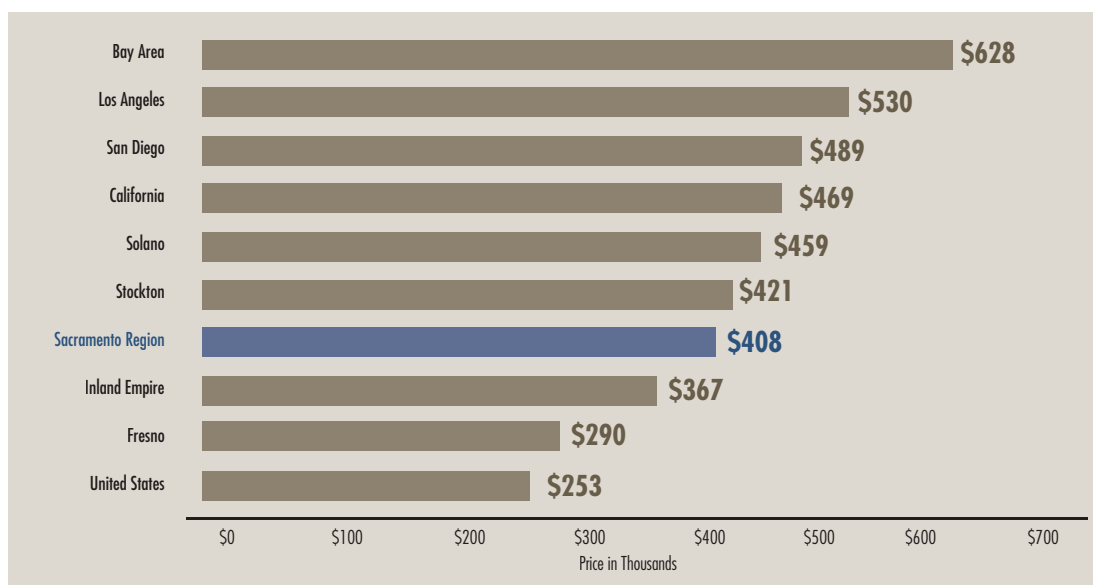
# With a Home Sale Price around \$400,000, only a Limited Number of Homes Sold were Affordable to Families Earning a Median Income

Posting a median home sale price of about \$408,000 for the third quarter of 2005, the Sacramento Region was one of the most inexpensive among neighboring and major regions in the state. This home sale price marked a 22 percent increase over the previous year, a rate similar to the statewide average. Every selected area in the state saw home sale prices above the national average, but most of California's inland areas, including Stockton, Sacramento, Fresno, and the Inland Empire, remained below the statewide average. Three of the state's major regions posted median home sale prices above the statewide average with the Bay Area's \$628,000 sale price remaining at the top of the list by a notable margin.

Only about 7 percent of homes sold in the Region in the third quarter of 2005 were affordable to families earning a median income. The Region has seen a drop in affordability around the statewide average of close to 8 percentage points over the past year. Sacramento's Housing Opportunity Index score places it below the statewide average and the Bay Area, the most expensive region. Los Angeles and San Diego, two other relatively high-priced regions, along with Stockton were less affordable than the Sacramento Region. Every selected region saw affordability well below the national average where about 43 percent of homes sold were affordable to median-income families.

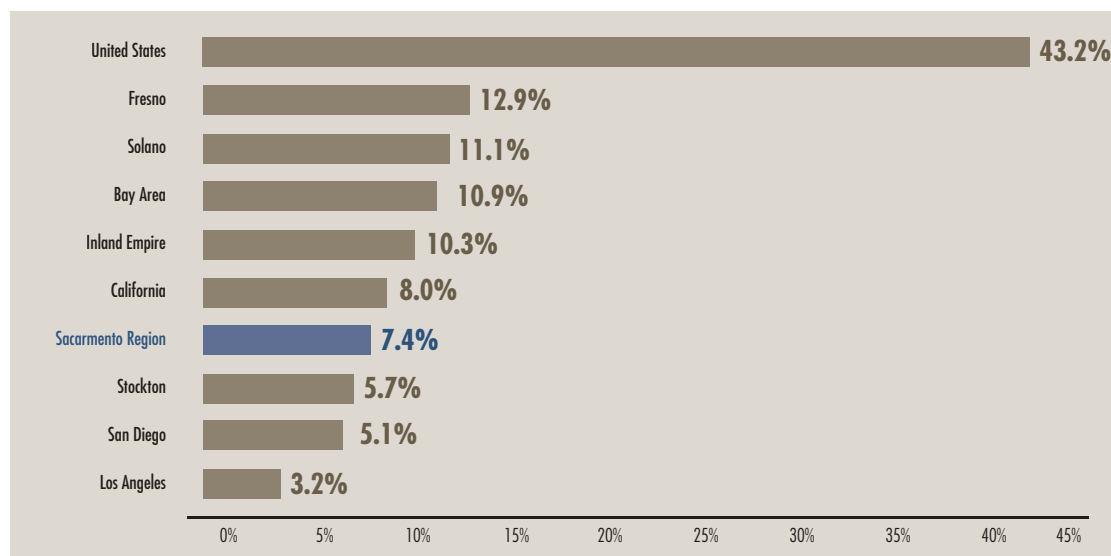
## Home Sale Price

Selected Regions,  
Third Quarter 2005  
Sacramento Regional Research  
Institute, January 2006  
Data Source: National  
Association of Home Builders—  
Wells Fargo Housing  
Opportunity Index



## Housing Opportunity Index

Selected Regions,  
Third Quarter 2005  
Sacramento Regional  
Research Institute,  
January 2006  
Data Source: National  
Association of Home  
Builders—Wells Fargo  
Housing Opportunity Index  
Note: Housing Opportunity  
Index reflects share of homes  
sold that would have been  
affordable to a family earning  
the median income.





# Prosperity Index: Measuring the Sacramento Region's Competitive Position

## Business Component Update

The Sacramento Regional Research Institute (SRRI) developed the Prosperity Index to provide business and community leaders in the Sacramento Region a valuable tool to measure economic prosperity and track its performance against competitor regions in order to evaluate the competition, identify opportunities for improvement and ultimately impact change in the Region. Along with the national average, ten competitor regions were chosen as benchmarks for this analysis based on feedback from regional economic development organizations regarding metropolitan areas that often compete with the Region for business location and expansion projects. SRRI will update the overall Prosperity Index annually—which measures indicators in the three areas of **BUSINESS**, **PEOPLE** and **PLACE**. The **BUSINESS** component will be updated quarterly in order to allow for more frequent evaluations of the local business climate. For more information and to view the 2005 report, please visit [www.srri.net](http://www.srri.net).

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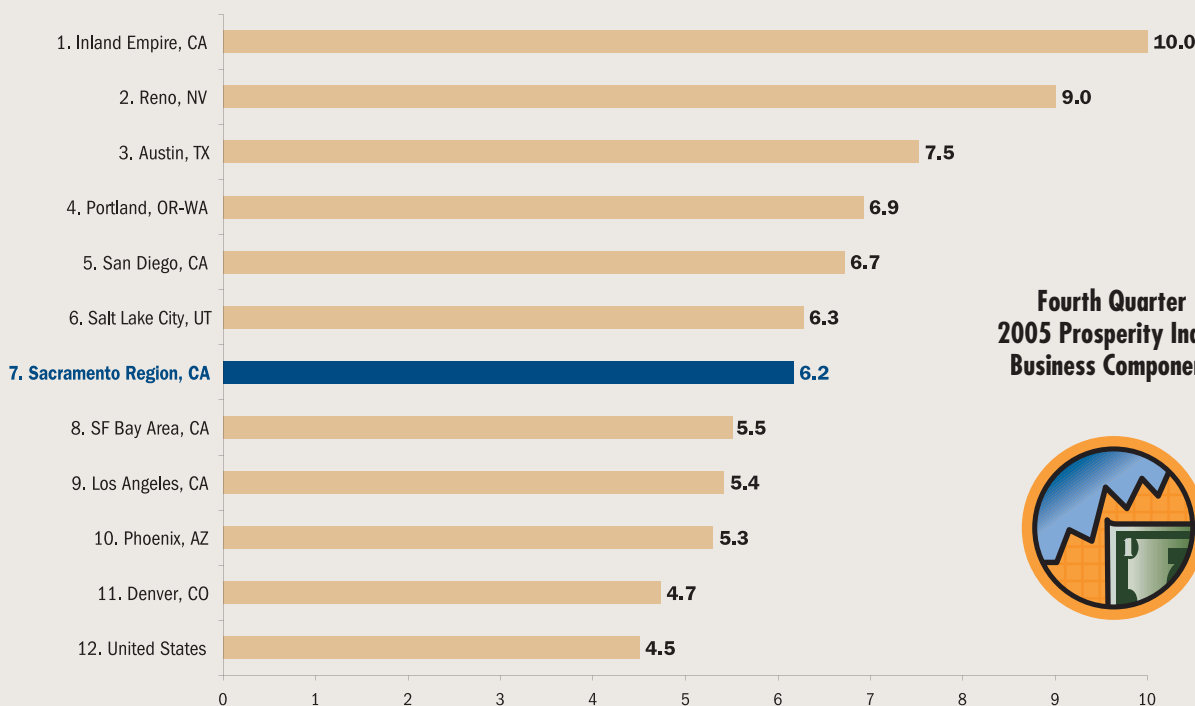


**GENCORP**

## The Sacramento Region's Competitive Position Improved in the Fourth Quarter

The Sacramento Region received a score of 6.2 out of a possible 10 points on the **BUSINESS** component of the **PROSPERITY INDEX** for the fourth quarter of 2005, placing the Region in seventh among its main competitors. The Region's fourth quarter score marks an improvement over the third quarter where the Region attained a score of 5.3 and ranked ninth. The Region posted moderate scores for the Establishment Growth, Office Vacancy Rate, and Unemployment Rate indicators, but its middle-of-the road scores in Job Growth and Payroll Growth along with a low score in Venture Capital Investment kept the Region in the middle of the pack on the overall Business component. Half of the Region's indicator scores improved from the third to fourth quarter including Establishment

Growth, Payroll Growth, and Unemployment Rate. The Job Growth, Office Vacancy Rate, and Venture Capital Investment indicators all posted lower scores in fourth quarter compared to the third quarter. The Inland Empire (Riverside/San Bernardino) remained at the top of the list as a result of its relatively strong performance in the majority of the indicators, while the United States fell to the bottom with comparatively low scores across the board. Every selected region ranked higher than the national average, demonstrating the general strength of the business climate within this group of competitive economies in the western United States. In general, the Sacramento Region presents a moderate, but improving, competitive position in terms of business climate.



**Fourth Quarter  
2005 Prosperity Index  
Business Component**



# Prosperity Index: Measuring the Sacramento Region's Competitive Position

## Fourth Quarter 2005 Prosperity Index: Business Component Indicator Scores

Region	Establishment Growth	Job Growth	Office Vacancy Rate	Payroll Growth	Unemployment Rate	Venture Capital Investment
Austin, TX	5.0	7.3	0.0	10.0	7.7	2.0
SF Bay Area, CA	3.1	0.0	4.1	0.4	6.0	10.0
Denver, CO	5.7	2.9	1.3	2.8	5.7	1.8
Inland Empire, CA	9.2	10.0	10.0	7.9	5.8	0.0
Los Angeles, CA	6.9	0.4	9.3	0.0	5.8	0.7
Phoenix, AZ	0.0	9.4	4.4	8.6	0.0	0.2
Portland, OR-WA	9.4	6.7	5.6	5.2	2.4	0.6
Reno, NV	7.4	6.4	5.2	5.5	10.0	4.2
<b>Sacramento Region, CA</b>	<b>6.0 (+)</b>	<b>3.7(-)</b>	<b>6.0(-)</b>	<b>4.8(+)</b>	<b>6.1(+)</b>	<b>0.1(-)</b>
Salt Lake City, UT	10.0	4.6	3.0	2.4	6.8	0.4
San Diego, CA	6.5	2.0	9.3	0.1	8.6	2.2
United States	5.0	2.2	4.0	2.0	5.8	0.6

Sacramento Regional Research Institute, January 2006

Note: + refers to improvement in score over Q3 and - represents decrease in score from Q3

## Benchmark Regions

**Sacramento Region, CA**—El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba Counties

**Austin, TX**—Bastrop, Caldwell, Hays, Travis, and Williamson Counties

**SF Bay Area, CA**—Alameda, Contra Costa, Marin, San Benito, San Francisco, San Mateo, and Santa Clara Counties

**Denver, CO**—Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, Park, and Boulder Counties

**Inland Empire, CA**—Riverside and San Bernardino Counties

**Los Angeles, CA**—Orange, Los Angeles, and Ventura Counties

**Phoenix, AZ**—Maricopa and Pinal Counties

**Portland, OR-WA**—Clackamas, Columbia, Multnomah, Washington, Yamhill Counties in Oregon and Clark and Skamania Counties in Washington

**Reno, NV**—Storey and Washoe Counties

**Salt Lake City, UT**—Salt Lake, Summit, Tooele, Davis, Morgan, and Weber Counties

**San Diego, CA**—San Diego County

**United States**—national average

## Prosperity Index Business Component Indicators

**Job Growth** accounts for the year-over-year percentage increase in average first quarter employment from 2004 to 2005. This measure is often viewed as an indicator of overall economic performance since employment is the primary source of income for residents and changes in the level of jobs reflect local business patterns. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

**Establishment Growth** measures the percentage increase in firms from the first quarter of 2004 to the same quarter of 2005. As an

indicator of the overall business climate, this measure shows net changes in the number of businesses and captures firm births and deaths. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

**Office Vacancy Rate** calculates the percentage of the total net rentable area of office property that was unoccupied in the third quarter of 2005. High vacancies indicate a lack of demand and/or overdevelopment and can also be interpreted as signs of economic slowdown. Regions with high vacancy rates receive low scores on this indicator. The sources for this data are the CB Richard Ellis Office Vacancy Index and Market View reports and Colliers International Market Reports.

**Payroll Growth** measures the percentage increase in aggregate compensation over a one-year period (in this case, from the first quarter of 2004 to the first quarter of 2005). This data provides insight into changes in total industry payrolls, pointing to general business performance and the level of available consumption and savings activity. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

**Unemployment Rate** calculates a 12-month moving average (ending in September 2005) percentage of the labor force that was unemployed. Higher unemployment rates indicate signs of economic slowdowns, increased competition for jobs, and decreased ability to generate income while lower rates tend to signify growth and expansion. Regions with low unemployment rates receive higher scores on this indicator. The source for this data is the Bureau of Labor Statistics' Local Area Unemployment Statistics.

**Venture Capital Investment** accounts for total venture capital funds invested in local companies per employee in the third quarter of 2005. This indicator not only points to perceptions in the investment community about a region's innovation capacity and investment risk, but also has future implications since firms receiving venture capital use the funds in an attempt to innovate, develop products and services, and become more productive in the future. The sources for this data are Venture Economics' Quarterly Statistics and the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

# SACTO Prospect Activity Update

Over the past calendar year, SACTO experienced a rapid increase in recruitment activity. Communication with site selection consultants, real estate brokers, and company representatives is higher than SACTO has seen in several years.

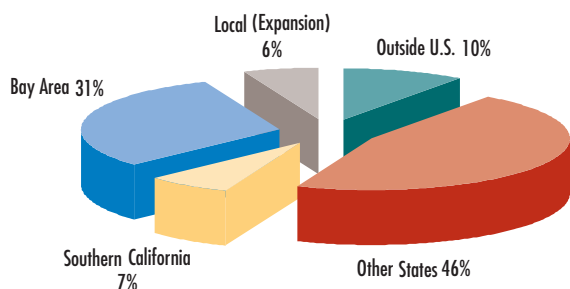
In the period between January 2005 and January 2006, the aggregate amount of space required by all prospects increased from 8.3 million square feet to 19.8 million square feet, an increase of 139%. In terms of the labor required by these prospect firms, SACTO observed an increase of 10,400 employees, a jump from 7,400 to 17,800 over the same period.

Manufacturing is still an important segment of SACTO's recruiting efforts, now representing 35% of all companies it is currently assisting. These firms are evenly distributed

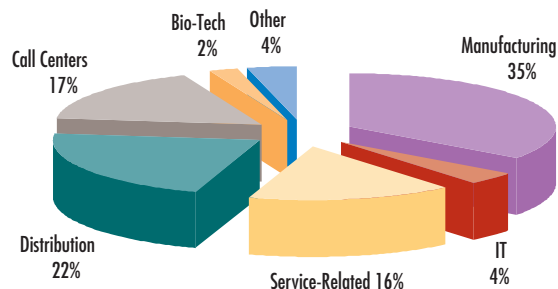
amongst the Bay Area high-cost "refugees," Fortune 500 firms wanting to be closer to the California market in order to reduce transportation costs, and international firms looking at emerging technologies in life sciences and alternative energies.

While there are discussions continuing regarding the competitiveness of California to other states, SACTO has seen a resurgence of activity from outside of the state, now representing over half of all companies currently being assisted. With California being one of the fastest-growing and wealthiest states in the U.S., the Sacramento Region is uniquely positioned as an ideal place for companies looking for a location where they can access all major metropolitan markets in California. This is true for all facility types, from manufacturing to financial services.

**Prospect Origin Breakdown**



**Facility Type Breakdown**



## Quarterly ECONOMIC REPORT

A P U B L I C A T I O N B R O U G H T T O Y O U B Y S A C T O A N D  
T H E S A C R A M E N T O R E G I O N A L R E S E A R C H I N S T I T U T E

SACTO  The Inside Track

### ABOUT SACTO

SACTO is the region's leading facilitator of economic development bringing together the organizations, information and resources in the pursuit of jobs, talent and investment needed to ensure regional prosperity and global competitiveness.

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 **SRRI**

### ABOUT SRRI

SRRI provides a full range of objective economic and demographic research services to government entities, businesses and non-profit organizations.

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